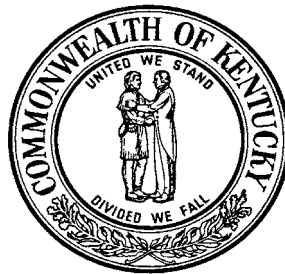


**REPORT OF THE AUDIT OF THE  
ROWAN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ROWAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Rowan County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances decreased by \$298,748 from the beginning of the year, resulting in a cash surplus of \$1,514,934 as of June 30, 2002.

#### **Debt Obligations:**

Total long-term bond debt principal as of June 30, 2002, was \$2,508,814. Future collections of \$2,757,708 are needed over the next 10 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$2,027,000 as of June 30, 2002. Future principal and interest payments of \$2,410,924 are needed to meet these obligations.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Rowan County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Rowan County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Rowan County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Clyde A. Thomas, Rowan County Judge/Executive  
Members of the Rowan County Fiscal Court

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity balances arising primarily from cash transactions as of June 30, 2002, of Rowan County, Kentucky, and the revenues received and expenditures paid and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2002, on our consideration of Rowan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Rowan County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 21, 2002

ROWAN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Clyde A. Thomas	County Judge/Executive
Mary Anna Pecco	Magistrate
Jerry Flannery	Magistrate
Troy Perkins	Magistrate
Nick Caudill	Magistrate

**Other Elected Officials:**

Paul Stokes	County Attorney
Donald K. Hall	Jailer
Jean W. Bailey	County Clerk
Jim Barker	Circuit Court Clerk
Jack Carter	Sheriff
C. J. Baker	Property Valuation Administrator
John P. Northcutt	Coroner

**Appointed Personnel:**

Kerry Jessee	County Treasurer
Charles Stansbury	Occupational Tax Collector
Maryann Stevens	Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

ROWAN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 1,045,613	\$ 144,994	\$ 324,327
Restricted Cash-			
Payroll Revolving Account	2,327		
Insurance Clearing Account	676		
Total Assets	\$ 1,048,616	\$ 144,994	\$ 324,327
<u>Other Resources</u>			
Amounts to be provided in Future Years for:			
Kentucky Area Development Districts			
Financing Trust (Note 6)	\$ 1,560,000	\$	\$
Kentucky Association of Counties			
Leasing Trust Agreement			
Principal (Note 6)	467,000		
Bond Principal Payments:			
Detention Facilities Series			
1997 Bond (Note 5)			630,673
Road Improvement Bond (Note 5)			1,510,000
Loan Receivable (Note 5A)			43,814
Total Other Resources	\$ 2,027,000	\$	\$ 2,184,487
Total Assets and Other Resources	\$ 3,075,616	\$ 144,994	\$ 2,508,814

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$ 16,475	\$ 1,531,409
	2,327
	<u>676</u>
\$ 16,475	\$ 1,534,412
\$	\$ 1,560,000
	467,000
	630,673
	1,510,000
	<u>43,814</u>
<u>\$</u>	<u>\$ 4,211,487</u>
<u>\$ 16,475</u>	<u>\$ 5,745,899</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Kentucky Area Development Districts			
Financing Trust (Note 6C,D,E)	\$ 1,560,000	\$	\$
Kentucky Association of Counties			
Leasing Trust Agreement			
Principal (Note 6A,B)	467,000		
Bond Principal Payments:			
Detention Facilities Series			
1997 Bond (Note 5B)			955,000
Road Improvement Bond (Note 5D)			1,510,000
Loan Payable (Note 5A)			43,814
Payroll Account	2,327		
Insurance Clearing Account	676		
Total Liabilities	\$ 2,030,003	\$	\$ 2,508,814
<u>Equity</u>			
Fund Balances:			
Reserved	\$ 439	\$ 215	\$
Unreserved	1,045,174	144,779	
Total Equity	\$ 1,045,613	\$ 144,994	\$
Total Liabilities and Equity	\$ 3,075,616	\$ 144,994	\$ 2,508,814

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$	\$ 1,560,000
	467,000
	955,000
	1,510,000
	43,814
	2,327
	676
<u>\$</u>	<u>\$ 4,538,817</u>
\$ 16,475	\$ 17,129
<u>16,475</u>	<u>1,189,953</u>
<u>\$ 16,475</u>	<u>\$ 1,207,082</u>
<u>\$ 16,475</u>	<u>\$ 5,745,899</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ROWAN COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,703,689	\$ 3,495,903	\$ 1,904,710	\$ 671,111
Other Financing Sources:				
Transfers In	1,528,475	96,919	570,473	412,500
Receipts - Jail Canteen	8,822			
Lease-Purchase Proceeds	318,750	168,750		
Total Cash Receipts	<u>\$ 8,559,736</u>	<u>\$ 3,761,572</u>	<u>\$ 2,475,183</u>	<u>\$ 1,083,611</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,340,467	\$ 2,833,773	\$ 2,056,628	\$ 974,143
Other Financing Uses:				
Schedule of County of Rowan Properties Corporation Fund Expenditures	2,596			
Transfers Out	1,528,475	859,976	252,905	122,202
Expenditures - Jail Canteen	6,177			
Bonds:				
Principal Paid	255,000			
Interest Paid	124,945			
Kentucky Area Development Districts Financing Trust - Principal	140,000	140,000		
Borrowed Money Repaid	241,179	237,049		
Kentucky Association of Counties Leasing Trust - Principal	217,000		217,000	
Total Cash Disbursements	<u>\$ 8,855,839</u>	<u>\$ 4,070,798</u>	<u>\$ 2,526,533</u>	<u>\$ 1,096,345</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (296,103)	\$ (309,226)	\$ (51,350)	\$ (12,734)
Cash Balance - July 1, 2001	<u>1,827,511</u>	<u>1,295,157</u>	<u>66,959</u>	<u>14,879</u>
Cash Balance - June 30, 2002	<u>\$ 1,531,408</u>	<u>\$ 985,931</u>	<u>\$ 15,609</u>	<u>\$ 2,145</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

General Fund Type			Special Revenue Fund Type		
Local Government Economic Assistance Fund	Disaster and Emergency Services Fund	Community Development Block Grant Fund	Forest Fund	Payroll And Occupational Tax Fund	Ambulance Fund
\$ 36,730	\$ 29,962	\$ 71,035	\$ 1,188	\$ 3,643	\$ 291,294
	20,250		500		46,000
					150,000
<u>\$ 36,730</u>	<u>\$ 50,212</u>	<u>\$ 71,035</u>	<u>\$ 1,688</u>	<u>\$ 3,643</u>	<u>\$ 487,294</u>
 \$ 7,860	 \$ 52,909	 \$ 71,035	 \$ 1,604	 \$	 \$ 342,515
				292,738	
 <u>\$ 7,860</u>	 <u>\$ 52,909</u>	 <u>\$ 71,035</u>	 <u>\$ 1,604</u>	 <u>\$ 292,738</u>	 <u>\$ 342,515</u>
 \$ 28,870	 \$ (2,697)	 \$	 \$ 84	 \$ (289,095)	 \$ 144,779
12,619	3,136		131	289,095	
<u>\$ 41,489</u>	<u>\$ 439</u>	<u>\$</u>	<u>\$ 215</u>	<u>\$</u>	<u>\$ 144,779</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

	Debt Service Fund Type	Enterprise Fund Type
	County of Rowan Properties Corporation Fund	Jail Canteen Fund
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 198,113	\$
Other Financing Sources:		
Transfers In	381,833	
Receipts - Jail Canteen		8,822
Lease-Purchase Proceeds		
Total Cash Receipts	<u>\$ 579,946</u>	<u>\$ 8,822</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$
Other Financing Uses:		
Schedule of County of Rowan Properties Corporation Fund		
Expenditures	2,596	
Transfers Out	654	
Expenditures - Jail Canteen		6,177
Bonds:		
Principal Paid	255,000	
Interest Paid	124,945	
Kentucky Area Development Districts Financing Trust - Principal		
Borrowed Money Repaid	4,130	
Kentucky Association of Counties Leasing Trust - Principal		
Total Cash Disbursements	<u>\$ 387,325</u>	<u>\$ 6,177</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 192,621	\$ 2,645
Cash Balance - July 1, 2001	<u>131,706</u>	<u>13,829</u>
Cash Balance - June 30, 2002	<u><u>\$ 324,327</u></u>	<u><u>\$ 16,474</u></u>

STATEMENT OF CASH FLOWS-  
PROPRIETARY FUND TYPE



ROWAN COUNTY  
STATEMENT OF CASH FLOWS-  
PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u> <u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 8,079
Interest Received on Bank Account	45
Operating Disbursements	<u>(6,177)</u>
Net Cash Provided By Operating Activities	<u>\$ 1,947</u>
Cash Flows from Investing Activities:	
Interest Received on Investment	<u>\$ 698</u>
Net Cash Provided by Investing Activities	<u>\$ 698</u>
Net Increase in Cash	\$ 2,645
Cash and Cash Equivalents - Beginning	<u>13,830</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 16,475</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 1,947
Net Changes in Assets and Liabilities:	
Net Cash Provided by Operating Activities	<u><u>\$ 1,947</u></u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Rowan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the County of Rowan Properties Corporation Fund as part of the reporting entity.

The County of Rowan Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

Additional - Rowan County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Rowan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Rowan County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Rowan County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), and the Disaster and Emergency Services Fund.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Rowan County Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund, Forest Fund, Payroll and Occupational Tax Fund, and the Ambulance Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the County of Rowan Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Rowan County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Rowan County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the County of Rowan Properties Corporation Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investment

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. For the purpose of the statement of cash flows, the county considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Rowan County Fiscal Court: Rowan County Ambulance Board and the Rowan County Airport Board. The Rowan County Fiscal Court took over the operations of the Rowan County Ambulance Board in February 2002. The Ambulance Service is now a budgeted fund of the County.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

ROWAN COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 4. Short-Term Debt

On May 31, 2001, the Rowan County Fiscal Court borrowed \$237,049 for the purchase of real property for the Rowan County Airport. The interest rate was 5.35% and the loan was paid in full during the current fiscal year.

Note 5. Long-Term Debt

Long-term debt outstanding of the County of Rowan Properties Corporation includes:

- A. On April 23, 1996, the County of Rowan Properties Corporation entered into a loan with Firststar Bank for \$65,000 for the purchase of a building. The loan carries an interest rate of 6.25% and requires monthly payments of \$561 for 180 months, to be paid in full April 21, 2011. The principal balance of the agreement was \$43,814 as of June 30, 2002. The County of Rowan Properties Corporation has entered into a lease-purchase agreement for the building with Rowan County Fiscal Court and Rowan County Fiscal Court has subleased the building to DOVES of Gateway. The sublease with DOVES of Gateway constitutes a loan receivable for the Fiscal Court. The loan, lease-purchase, and sublease are under the same terms. Loan payments for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 1,764	\$ 3,962
2004	2,512	4,315
2005	2,231	4,496
2006	1,937	4,789
2007	1,415	5,102
2008-2012	<u>2,944</u>	<u>21,150</u>
Totals	<u>\$ 12,803</u>	<u>\$ 43,814</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

- B. On September 1, 1997, the County of Rowan Properties Corporation issued \$1,285,000 of revenue bonds for the purpose of defeasing the 1991 bond series issue. The 1991 bonds were originally issued to finance construction of the Rowan County Detention Center. The refunding bonds were dated September 1, 1997, with the requirement that semiannual interest payments be made on March 1 and September 1 of each year. One principal payment is due on March 1 of each year. The bonds will mature March 1, 2012. As of June 30, 2002, the principal amount outstanding is \$955,000. Bond payments for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 47,978	\$ 75,000
2004	44,265	80,000
2005	40,265	85,000
2006	36,015	90,000
2007	31,515	95,000
2008-2012	<u>83,326</u>	<u>530,000</u>
Totals	<u>\$ 283,364</u>	<u>\$ 955,000</u>

- C. The County of Rowan Public Properties Corporation issued the 1991 bond series for the purpose of financing construction of the Rowan County Detention Center. On September 1, 1997, refunding bonds were issued for the purpose of defeasing the 1991 bond series issue. Fifth Third Bank is making the required principal and interest payments on the bonds from Rowan County's Refunding Bond Escrow account at Fifth Third Bank. The 1991 bond series was paid in full in September of 2001.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

- D. On June 15, 1999, the County of Rowan Properties Corporation issued \$2,035,000 of revenue bonds for road improvements. The bonds require that semiannual interest and principal payments be made on June 1 and December 1 of each year commencing on December 1, 1999. One principal payment is due on June 1 of each year. The bonds will mature June 1, 2009. As of June 30, 2002, the principal amount outstanding is \$1,510,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 65,605	\$ 190,000
2004	57,530	195,000
2005	49,243	205,000
2006	40,530	215,000
2007	31,393	225,000
2008-2009	32,753	480,000
Totals	<u>\$ 277,054</u>	<u>\$ 1,510,000</u>

Note 6. Capital Leases

- A. Rowan County entered into a \$992,000 lease agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The agreement requires variable monthly payments for 132 months to be paid in full January 20, 2003. On May 7, 2001, the lease was refinanced. The scheduled principal and interest payments shown are for the refinanced amounts. The principal balance of the agreement was \$115,000 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	<u>\$ 2,631</u>	<u>\$ 115,000</u>
Totals	<u>\$ 2,631</u>	<u>\$ 115,000</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Capital Leases (Continued)

- B. Rowan County entered into a \$1,000,000 lease agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The agreement requires variable monthly payments for 114 months to be paid in full January 30, 2005. The principal balance of the agreement was \$352,000 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 17,832	\$ 112,000
2004	10,317	117,000
2005	4,323	123,000
Totals	\$ 32,472	\$ 352,000

- C. Rowan County entered into a \$1,500,000 lease agreement with the Kentucky Area Development Districts Financing Trust for airport land acquisition. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2000. One principal payment is due on June 1 of each year commencing June 1, 2001. The lease agreement ends June 1, 2010. The Morehead – Rowan County Airport Board made a resolution that they would provide funds to the Rowan County Fiscal Court to make these payments. The Morehead – Rowan County Airport Board's ability to provide this funding is contingent on the Transportation Cabinet's Kentucky Aviation Economic Development Fund continuing to provide annual assistance to them. The principal balance on the lease was \$1,255,000 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 62,553	\$ 130,000
2004	56,378	140,000
2005	49,727	145,000
2006	42,840	150,000
2007	35,190	160,000
2008-2009	54,825	530,000
Totals	\$ 301,513	\$ 1,255,000

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Capital Leases (Continued)

- D. Rowan County entered into a \$170,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purchase of a fire truck. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2001. One principal payment is due on June 1 of each year commencing June 1, 2002. The lease agreement ends June 1, 2011. The principal balance on the lease was \$155,000 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 6,240	\$ 15,000
2004	5,700	15,000
2005	5,160	15,000
2006	4,620	15,000
2007	3,990	15,000
2008-2012	8,400	80,000
Totals	<u>\$ 34,110</u>	<u>\$ 155,000</u>

- E. Rowan County entered into a \$150,000 lease agreement with the Kentucky Area Development Districts Financing Trust for debt consolidation of the former Rowan County Ambulance Board. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2002. One principal payment is due on June 1 of each year commencing June 1, 2003. The lease agreement ends June 1, 2006. The principal balance on the lease was \$150,000 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 4,973	\$ 35,000
2004	4,025	35,000
2005	2,800	40,000
2006	1,400	40,000
Totals	<u>\$ 13,198</u>	<u>\$ 150,000</u>

Note 7. Insurance

For the fiscal year ended June 30, 2002, Rowan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



ROWAN COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,586,969	\$ 3,495,903	\$ 908,934
Road and Bridge Fund	2,603,095	1,904,710	(698,385)
Jail Fund	1,108,317	671,111	(437,206)
Local Government Economic Assistance Fund	25,000	36,730	11,730
Disaster and Emergency Services Fund	50,532	29,962	(20,570)
<u>Special Revenue Fund Type</u>			
Community Development Block Grant Fund	71,088	71,035	(53)
Forest Fund	1,700	1,188	(512)
Payroll and Occupational Tax Fund		3,643	3,643
Ambulance Fund	302,817	291,294	(11,523)
<u>Debt Service Fund Type</u>			
County of Rowan Properties Corporation Fund		198,113	198,113
Totals	<u>\$ 6,749,518</u>	<u>\$ 6,703,689</u>	<u>\$ (45,829)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 6,749,518	
Add: Budgeted Prior Year Surplus		1,271,959	
Less: Other Financing Uses		<u>(1,046,901)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 6,974,576</u>	

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SCHEDULE OF OPERATING REVENUE



ROWAN COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 2,766,403	\$ 2,761,626	\$ 4,777	\$
In Lieu Tax Payments	226,124	226,124		
Excess Fees	58,401	58,401		
Licenses and Permits	87,023	87,023		
Intergovernmental Revenues	3,017,200	2,721,165	101,035	195,000
Charges for Services	285,680	50,976	234,704	
Miscellaneous Revenues	198,163	171,700	26,463	
Interest Earned	64,695	61,401	181	3,113
Total Operating Revenue	<u>\$ 6,703,689</u>	<u>\$ 6,138,416</u>	<u>\$ 367,160</u>	<u>\$ 198,113</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



ROWAN COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,167,307	\$ 997,563	\$ 169,744
Protection to Persons and Property	1,878,486	1,748,115	130,371
General Health and Sanitation	148,043	143,200	4,843
Social Services	31,800	29,405	2,395
Recreation and Culture	95,988	92,386	3,602
Roads	1,910,647	1,858,981	51,666
Airports	12,513	12,500	13
Senior Citizens	18,656	18,656	
Debt Service	24,074	100,720	(76,646)
Capital Projects	37,621	7,860	29,761
Administration	1,230,759	915,927	314,832
Total Operating Budget - General Fund Type	\$ 6,555,894	\$ 5,925,313	\$ 630,581
Other Financing Uses:			
Transfers to County of Rowan			
Properties Corporation Fund -			
Principal	258,799	259,130	(331)
Interest	194,053	122,703	71,350
Borrowed Money Repaid	237,049	237,049	
Kentucky Area Development			
Districts Leasing Trust - Principal	140,000	140,000	
Kentucky Association of Counties			
Leasing Trust - Principal	217,000	217,000	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 7,602,795	\$ 6,901,195	\$ 701,600

ROWAN COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 46,990	\$	\$ 46,990
Protection to Persons and Property	244,391	288,992	(44,601)
Capital Projects	67,235	67,235	
Debt Service	755	755	
Administration	59,311	58,172	1,139
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 418,682</u>	<u>\$ 415,154</u>	<u>\$ 3,528</u>

SCHEDULE OF COUNTY OF ROWAN  
PROPERTIES CORPORATION FUND EXPENDITURES



ROWAN COUNTY  
SCHEDULE OF COUNTY OF ROWAN  
PROPERTIES CORPORATION FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Fund</u>
Loan Interest	<u>\$ 2,596</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Clyde A. Thomas, Rowan County Judge/Executive  
Members of the Rowan County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Rowan County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 21, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Rowan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rowan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 21, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Members of the Rowan County Fiscal Court

**Report On Compliance With Requirements**  
**Applicable To Each Major Program And On Internal Control**  
**Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Rowan County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Rowan County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Rowan County's management. Our responsibility is to express an opinion on Rowan County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rowan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Rowan County's compliance with those requirements.

In our opinion, Rowan County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Rowan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Rowan County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 21, 2002

## FINDINGS AND QUESTIONED COSTS



ROWAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Rowan County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Rowan County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Rowan County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Rowan County reported in Part C of this schedule.
7. The program tested as major program was: Federal Emergency Management Agency – 2001 Severe Weather (CFDA #83.544).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Rowan County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



ROWAN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department For Local Government:		
Community Development Block Grants-		
Clearfield Creek Sewer Extension Project (CFDA #14.228)	Not Available	\$ 71,035
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
COPS In Schools (CFDA #16.710)	Not Available	30,839
Universal Hiring Grant (CFDA #16.710)	Not Available	19,156
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Coordinator Salary (CFDA #83.552)	Not Available	8,127
2001 Severe Weather (CFDA #83.544)	Not Available	260,795
Total Cash Expenditures of Federal Awards		<u>\$ 389,952</u>

ROWAN COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

ROWAN COUNTY FISCAL COURT

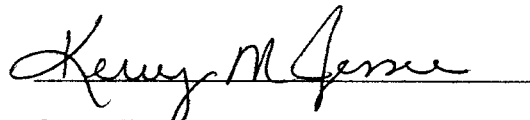
For The Fiscal Year Ended June 30, 2002

CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
ROWAN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2002

The Rowan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
County Judge/Executive

  
County Treasurer

